MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BFN3104 – CORPORATE FINANCIAL STRATEGIES

(All sections / Groups)

26 OCTOBER 2018
3.00 P.M – 5.00 P.M.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 3 pages including the cover page with 7 questions.
2. Answer **ALL** questions in the **answer booklet** provided.
3. Marks are shown at the end of each question.

Students are not allowed to take this question paper out of this examination room/hall.

Question 1 (8 marks)

a. What is financial risk? (3 marks)

b. List the 4 methods used for hedging financial risks by multinational firms. (5 marks)

Question 2 (12 marks)

Describe the components of the Boston Consulting Group (BCG) Matrix and explain its usefulness in relation to the life cycle of a firm. (12 marks)

Question 3 (15 marks)

a. Your friend tells you about an arbitrage opportunity. You can buy stock for RM30 in London and sell it for RM30.10 in Paris. You judge the opportunity cost of lost interest to be minimal (no more than RM5). Based on previous trading, you expect it will cost you RM0.03 per share to buy in London and RM0.04 per share to sell in Paris. There are additional expenses of RM0.05 per share for such things as transfer and communications costs. You will pay someone RM10 to handle the transactions for you. Can you realize an "arbitrage" opportunity that will yield a riskless profit? (8 marks)

b. What are the conditions needed for a perfect market to exist? (7 marks)

Question 4 (22 marks)

a. Consider the following projects (data in thousands):

Project	**A**	**B**	**C**	**D**	**E**	**F**	**G**
Initial Cost (RM)	10	20	20	15	30	40	20
NPV (RM)	1.1	3.6	0.8	1.6	4.0	3.0	1.4

Calculate the profitability index (***PI***) for all the projects and rank them accordingly. If you are limited to RM115,000 for initial costs for projects, which projects would you choose? (20 marks)

b. What does capital rationing place limits on? (2 marks)

Question 5 (12 marks)

a. What is agency theory? What is a principal-agent relationship? (4 marks)

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b. Your business has experienced some financial distress. Your assets have an **equal** chance of being worth RM2,000 and an **equal** chance of being worth RM1,000 at year's end. Your debt is RM1,000 and due at the end of the year. Your creditors (or debtholders) will receive RM1,000 when the assets are high and RM800 when they are low. What is your expected payoff? (8 marks)

Question 6 (19 marks)

a. AIman Homebuilding and Bard's Homebuilding will merge. Aiman has a total market value (V_A) of RM80M (M = million), and Bard's has a total market value (V_B) of RM50M. Their merger will lead to operating efficiencies and will produce a present value savings of RM7M.

Answer the questions below.

i. Ignore expenses and the payment of a premium. What is the total market value of the merged firms? (4 marks)

ii. Ignore the payment of a premium. If the merger would entail expenses (E) amounting to RM4M, is there a net advantage to merging (NAM)? (5 marks)

iii. Given your answer in (ii), what will it take for there not to be a net advantage of merging? (4 marks)

b. What is a horizontal merger? (2 marks)

c. Distinguish between an acquirer and an acquiree. (4 marks)

Question 7 (12 marks)

a. What is financial distress? (2 marks)

b. Suppose ABC's financial statements indicate the following financial ratio values: X_1 = 20%, X_2 = 30%, X_3 = 25%, X_4 = 40%, X_5 = 1.95. It uses the Altman model: $Z = 0.012(X_1) + 0.014(X_2) + 0.033(X_3) + 0.006(X_4) + 0.999(X_5)$. Using this model, is ABC likely to fail within 12 months? (10 marks)

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